

Small and Medium Enterprise Program

The Small and Medium Enterprise (SME) Program discovers and promotes effective solutions to the constraints affecting SME growth and entrepreneurship in developing countries.



The Challenge

Small and medium enterprises are the biggest contributor to **employment** across countries, providing over 66% of jobs on average. SMEs are also thought to drive **innovation, social mobility, and productivity**. However, businesses in developing countries grow less than firms in developed countries due to constraints such as limited access to finance, low levels of human capital, and inefficient markets. Because these constraints hinder the SME sector's contribution to job creation and economic growth, governments and other organizations in developing countries spend billions of dollars each year on programs that aim to address the barriers to growth for SMEs. Unfortunately, **little evidence exists on how to effectively address these constraints to unlock SME growth**.

Our Work

 **Build the body of evidence**

The SME Program brings together **leading researchers** and **innovative organizations** to test new ideas and evaluate existing SME development approaches. Relying on IPA's **research management expertise**, these partnerships lead to high-quality, cutting-edge research that informs SME policy design. The Program also directly supports new research projects through its Competitive Research Fund on Entrepreneurship and SME Growth.

 **Promote evidence-based decision-making**

Producing evidence is not enough to achieve policy impact: results must reach those with the power to enact change. The SME Program works closely with its partner organizations to ensure that **research findings inform programmatic and operational decisions**. The Program also shares evidence with multilateral organizations, non-profits, governments, donors, and the private sector through various media outlets, policy documents, and international events.

Over the past six years, IPA has developed over 70 SME projects across 25 countries.



Our Research

The SME Program's research focuses on three key constraints to SME growth and entrepreneurship.

ACCESS TO FINANCE

Between 55 and 68 percent of formal SMEs in developing countries lack sufficient access to finance. Poor financial infrastructure makes it difficult for lenders to identify good SME borrowers, and a weak legal and regulatory framework can compound the problem. The SME Program works to evaluate programs and products designed to facilitate access to finance for SMEs.

Who benefits from increased access to credit? The Program is partnering with the Development Bank of the Philippines to test how credit affects the performance and growth of both firms receiving loans and that of their competitors and suppliers. In the study, loan applications with credit scores that fall just below the usual loan approval threshold are randomly approved. Applicants, along with their suppliers and competitors, are tracked to determine the market-level impacts of expanding credit for SMEs.

HUMAN CAPITAL AND SKILLS

While managerial training and consulting are popular programs used to promote SME growth, emerging evidence shows that often firm owners implement only a few practices taught in trainings and that in many cases these changes may not be enough to significantly increase profits. The SME Program oversees a number of research studies that aim to identify if and how training, consulting, and mentoring programs can sustainably improve business performance.

Does business consulting increase profits and employment? A randomized evaluation conducted by IPA in Puebla, Mexico found that a program in which local consultants offered tailored guidance to businesses for one year resulted in improved productivity but no increase in profits or sales in the year following the program. However, three years later, businesses that received consulting had on average 44% more employees and 55% higher total wages than businesses that did not receive consulting. Interestingly, there was little overlap in the specific management techniques adopted by firms that received consulting, suggesting that a one-size-fits-all solution is insufficient for improving business performance. The SME Program is conducting a follow up survey to track the long-run impact of the program on profits and sales.

ACCESS TO MARKETS

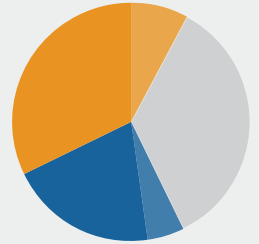
Participation in local and export markets represents an opportunity for SMEs to scale production, acquire technological upgrades, and increase product quality. However, markets in developing countries are often fragmented, illiquid, and lack formal regulation. These problems are especially challenging for SMEs that lack the financial and legal capacity to overcome such obstacles. The SME Program supports research that assesses the impact of programs and policies designed to expand market access for SMEs.

Does exporting improve firm performance? A randomized evaluation funded by the SME Program Competitive Research Fund assessed a program that sought to improve market access by matching Egyptian carpet-making SMEs with foreign buyers. Firms with export opportunities reported 15-25 percent higher profits than firms without. These profit gains were accompanied by increases in efficiency and substantial quality improvements that were evident even when these firms produced rugs for the domestic market.

55-68% of the 25-30 million SMEs in developing countries are credit constrained

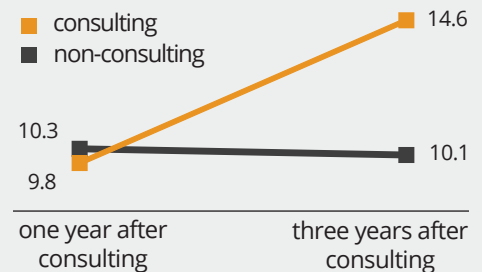
35-43% of firms are financially unserved

20-25% of firms are financially underserved



Source: Data from the IFC Access to Credit Among Micro, Small, and Medium Enterprises report. Ranges reflect the margin of error resulting from the use of multiple data sources.

Consulting increased the average number of employees per firm by 44% in Mexico
(number of employees)



Source: Bruhn et al. (2012)

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Entrepreneurship for Development

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